



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0075	Title:	Revise administrative costs for trust land management
Primary Sponsor:	Hawks, B.	Status:	As Amended

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Include in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
Expenditures:				
General Fund	\$188,569	\$184,664	\$185,677	\$186,894
ComSchool Guarantee Acct (02)	(\$188,569)	(\$184,664)	(\$185,677)	(\$186,894)
Revenue:				
General Fund	\$0	\$0	\$0	\$0
ComSchool Guarantee Acct (02)	(\$188,569)	(\$184,664)	(\$185,677)	(\$186,894)
University System (71)	(\$4,417)	(\$974)	\$2,176	\$5,251
Other Trusts (02)	\$4,116	\$8,591	\$12,934	\$17,185
Public Buildings (05)	(\$12,198)	(\$12,198)	(\$12,501)	(\$12,815)
ComSchool Perm Fund (09)	\$73,008	\$73,213	\$75,025	\$4,396,864
University System Perm Fund (09)	\$60,978	\$60,978	\$62,502	\$64,066
Other Trusts (09)	\$79,262	\$79,262	\$81,244	\$83,274
Net Impact-General Fund Balance:	<u>(\$188,569)</u>	<u>(\$184,664)</u>	<u>(\$185,677)</u>	<u>(\$186,894)</u>

Description of Fiscal Impact:

SB 75 limits the funding of administrative costs for the Trust Land Management Division of the Department of Natural Resources and Conservation (DNRC) to 25% of distributable revenues and mineral royalty revenue. Currently, DNRC utilizes a portion of the permanent trust revenue stream to fund administrative costs. This change would increase the amount of revenue to the permanent trust and legacy fund by approximately \$200,000 per year through FY 2010 and by \$4.5 million in FY 2011. This bill will reduce the amount of distributable revenue for the trusts, which results in an increase in general fund expenditures to replace the Common School portion.

FISCAL ANALYSIS

Assumptions:

1. SB 75 assists the department in implementing the 2006 Legislative Auditor's recommendations regarding cost accounting.
2. This bill consolidates Trust Land Management Division funding sources from seven accounts into two state special revenue accounts, which simplifies trust accounting.
3. An inflation factor of 2.5% has been applied to administrative costs for FY 2010 through FY 2011.
4. Under current law, the same revenue sources and relative funding will continue from the permanent trust revenue until FY 2011.
5. Under the proposed bill, administrative costs will no longer be taken out of the revenue going to the permanent trusts from sources other than mineral royalties. In FY 2006, permanent trust revenues provided funding for trust land management administrative costs of \$212,840. The allocation of this funding is in the 1st and 2nd columns of numbers in the table below.
6. SB 75 reallocates the expenses in assumption 5 from permanent trust revenues to distributable revenues. The allocation of costs among distributable revenue is dependent on several factors, including type of activity, acreage involved, and source of revenue generated, all of which can fluctuate from year to year. For fiscal note purposes, it is assumed that administrative costs by trust for FY 2008 through FY 2011 will reflect similar cost allocation percentages as FY 2006. Columns 3 and 4 in the table below show the allocation of costs to distributable revenue.
7. The following table shows the combined impact of assumption 5 and 6 are demonstrated in the table below. Columns 1 and 2 show the current allocation of administrative costs from non-distributable funds. Columns 3 and 4 show the SB 75 reallocation of these costs to distributable funds and column 5 shows the difference between the current and the proposed law.

SB 75 Change in Revenue Available to Each Fund in FY 2008 and FY 2009					
Trust	(1) Current Funding from Permanent Trusts (%)	(2) Current Funding from Permanent Trusts (\$)	(3) Current Funding from Distributable Revenue (%)	(4) SB 75 Funding from Distributable Revenue (\$)	(5) Difference
Common School Perm Fund (09)	34.00%	\$72,365.60	0%	\$0.00	\$72,365.60
Common School Guarantee Acct (02)	0%	\$0.00	90.50%	\$192,620.20	(\$192,620.20)
Public Buildings (05)	0%	\$0.00	5.76%	\$12,259.58	(\$12,259.58)
Montana State University 2nd Perm Trust (09)	0.20%	\$425.68	0%	\$0.00	\$425.68
Montana State University (02)	0%	\$0.00	2.10%	\$4,469.64	(\$4,469.64)
State Normal School Perm Trust (09)	4.50%	\$9,577.80	0%	\$0.00	\$9,577.80
State Normal School (02)	0%	\$0.00	1.04%	\$2,213.54	(\$2,213.54)
Montana Tech Perm Trust (09)	23.80%	\$50,655.92	0%	\$0.00	\$50,655.92
Montana Tech (02)	0%	\$0.00	0.40%	\$851.36	(\$851.36)
State Reform School Perm Trust (09)	19.40%	\$41,290.96	0%	\$0.00	\$41,290.96
State Reform School (02)	0%	\$0.00	0.10%	\$212.84	(\$212.84)
School for the Deaf and Blind Perm Trust (09)	18.00%	\$38,311.20	0%	\$0.00	\$38,311.20
School for the Deaf and Blind (02)	0%	\$0.00	0.05%	\$106.42	(\$106.42)
University of Montana Perm Trust (02)	0.10%	\$212.84	0%	\$0.00	\$212.84
University of Montana (02)	0%	\$0.00	0.04%	\$85.14	(\$85.14)
Veteran's Home (02)	0%	\$0.00	0.01%	\$21.28	(\$21.28)
Total	100.00%	\$212,840.00	100.00%	\$212,840.00	\$0.00

8. In FY 2008 – FY 2010, the guarantee account receives revenues generated from mineral royalties due to SB 495 from the 2001 session. The royalties were purchased in 2001 with a loan from the permanent coal trust. The \$46 million loan purchased \$138.9 million in royalties which was expected to be received over 30 years. Mineral royalty revenue has been much higher than expected, and the principal and interest of the loan are expected to be paid off in FY 2008. The guarantee account will continue to receive mineral royalties until the \$138.9 million has been received. Current estimates suggest that after the loan is paid off, the guarantee account will receive \$52 million through the end of FY 2010. When the \$138.9 million in mineral royalties has been received, the mineral royalty revenue will be allocated to the common school permanent fund.
9. When the provisions of SB 495 from the 2001 session have been met the mineral royalty revenue from the common school trust land will fund around \$4 million of TAC. This is shown in the following table under Current Law, Royalties to the Permanent Fund in FY 2011.
10. Based on LFD forecast, distribution of common school mineral royalties to the guarantee account pursuant to 17-6-340, MCA, (SB 495, 2001 Legislature) will cease in FY 2010. Under SB 75, mineral royalty revenue will continue to be deducted for funding the trust administration account. The following table shows the current law and SB 75 impact on mineral royalty revenue, **which is the same as current law.**

SB 75 and Common School Mineral Royalty Revenue (\$ millions)				
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Mineral Royalty Revenue	\$29.323	\$27.363	\$26.526	\$26.406
Current Law				
Mineral Royalties to Coal Loan	\$7.492	\$0.000	\$0.000	\$0.000
Mineral Royalties to Trust Administration	\$4.249	\$4.189	\$4.100	\$4.302
Mineral Royalties to Guarantee Account	\$17.582	\$23.174	\$11.604	\$0.000
Royalties to Permanent Fund	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$10.822</u>	<u>\$22.104</u>
Total	<u>\$29.323</u>	<u>\$27.363</u>	<u>\$26.526</u>	<u>\$26.406</u>
SB 75				
Mineral Royalties to Coal Loan	\$7.492	\$0.000	\$0.000	\$0.000
Mineral Royalties to Trust Administration	\$4.249	\$4.189	\$4.100	\$4.302
Mineral Royalties to Guarantee Account	\$17.582	\$23.174	\$11.604	\$0.000
Royalties to Permanent Fund	<u>\$0.000</u>	<u>\$0.000</u>	<u>\$10.822</u>	<u>\$22.104</u>
Total	<u>\$29.323</u>	<u>\$27.363</u>	<u>\$26.526</u>	<u>\$26.406</u>
Change from Current Law to SB 75				
Mineral Royalties to Coal Loan	\$0.000	\$0.000	\$0.000	\$0.000
Mineral Royalties to Trust Administration	\$0.000	\$0.000	\$0.000	\$0.000
Mineral Royalties to Guarantee Account	\$0.000	\$0.000	\$0.000	\$0.000
Royalties to Permanent Fund	\$0.000	\$0.000	\$0.000	\$0.000

11. The transfer of administration costs from permanent trust sources to the guarantee account reduces the guarantee account revenue available for school BASE aid. The guarantee account is the first funding of school BASE aid. The general fund is required to support the remaining costs. Thus, resulting in approximately \$190,000 in FY 2008 through FY 2011 of general fund will replace the guarantee account for school funding.

12. Additional interest will be generated from the increase in revenue for the permanent trust and legacy fund. This was projected using interest rates from HJR 2 for FY 2008 through FY 2009 and projected rates from OBPP for FY 2010 and FY 2011. Ninety-five percent of the interest from the common school permanent fund is allocated to the guarantee account and the remaining 5% is deposited back into the permanent trust. The interest from the university permanent trust and the other permanent trusts is distributable revenue to the corresponding trust. The increase in interest earnings and the allocation is shown in the following table.

Increased Interest Earnings from SB 75				
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Common School Guarantee Account (02)	\$3,888	\$7,793	\$11,591	\$15,306
Common School Permanent Fund (09)	\$205	\$410	\$610	\$806
University System (02)	\$3,428	\$6,871	\$10,219	\$13,495
Other Trusts (02)	\$4,456	\$8,931	\$13,283	\$17,541

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$188,569	\$184,664	\$185,677	\$186,894
ComSchool Guarantee Acct (02)	<u>(\$188,569)</u>	<u>(\$184,664)</u>	<u>(\$185,677)</u>	<u>(\$186,894)</u>
TOTAL Funding of Exp.	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
<u>Distributable Revenue</u>				
ComSchool Guarantee Acct (02)	(\$188,569)	(\$184,664)	(\$185,677)	(\$186,894)
University System (71)	(\$4,417)	(\$974)	\$2,176	\$5,251
Other Trusts (02)	\$4,116	\$8,591	\$12,934	\$17,185
Public Buildings (05)	(\$12,198)	(\$12,198)	(\$12,501)	(\$12,815)
<u>Permanent Trust Revenue</u>				
ComSchool Perm Fund (09)	\$73,008	\$73,213	\$75,025	\$77,294
University System Perm Fund (09)	\$60,978	\$60,978	\$62,502	\$64,066
Other Trusts (09)	<u>\$79,262</u>	<u>\$79,262</u>	<u>\$81,244</u>	<u>\$83,274</u>
TOTAL Revenues	<u><u>\$12,180</u></u>	<u><u>\$24,208</u></u>	<u><u>\$35,703</u></u>	<u><u>\$47,361</u></u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$188,569)	(\$184,664)	(\$185,677)	(\$186,894)
ComSchool Guarantee Acct (02)	\$0	\$0	\$0	\$0
University System (71)	(\$4,417)	(\$974)	\$2,176	\$5,251
Other Trusts (02)	\$4,116	\$8,591	\$12,934	\$17,185
Public Buildings (05)	(\$12,198)	(\$12,198)	(\$12,501)	(\$12,815)
ComSchool Perm Fund (09)	\$73,008	\$73,213	\$75,025	\$77,294
University System Perm Fund (09)	\$60,978	\$60,978	\$62,502	\$64,066
Other Trusts (09)	\$79,262	\$79,262	\$81,244	\$83,274

Technical Notes:

1. Pursuant to current law, after funding the FY 2008 budget, the department expects to be at 96% of the cap for the Trust Administration Account (TAC) established in 77-1-109, MCA. If SB 75 does not become law, DNRC will need to rely on other funding sources (Timber Sale Account, Resource Development Account, Commercial Leasing Account, Recreational Use Account, and Forest Improvement Fees) other than TAC to fund any increases in administrative costs in FY 2009 through FY 2011.
2. DNRC has a language recommendation in the Governor's Executive Budget for FY 2008 and FY 2009 to use general fund to pay administrative costs on the MSU- Morrill Grant lands.

Sponsor's Initials_____
Date_____
Budget Director's Initials_____
Date